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OTHER MATTERS ARISING FROM DECISIONS OF THE CONFERENCE OF THE PARTIES

MATTERS RELATING TO THE FINANCIAL MECHANISM

Arrangements between the Conference of the Parties and the operating entity or entities and the financial mechanism: Information on relevant action by the Council of the Global Environment Facility

Note by the secretariat

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I. INTRODUCTION

1. The Council of the Global Environment Facility (GEF) has held two meetings in Washington D.C since the first session of the Conference of the Parties (COP 1), the first, from 3 to 5 May and the second, from 18 to 20 July 1995.

2. Among issues addressed at these two meetings, the following are of particular relevance to the Convention. Related GEF Council action is presented below for the information of the Subsidiary Body for Implementation (SBI). (GEF Council decisions are reflected in italicized text.)

II. WORK PROGRAMME

3. At its May meeting, the Council considered a work programme of project proposals in the climate change, biodiversity and ozone depletion focal areas contained in GEF document GEF/C.4/3.* Among climate change project proposals were ten projects on enabling activities, including the joint training programme (CC:TRAIN) carried out by the United Nations Institute for Training and Research and the UNFCCC secretariat, and two preferential investment projects.

4. The Council reviewed and approved the work programme proposed in document GEF/C.4/3. ... The Council requested the Implementing Agencies to develop the projects in the approved work programme further, taking into account comments raised by the Council and any subsequent technical written comments to be submitted within three weeks of the Council meeting. In reviewing the work programme, the Council noted that certain projects raised policy issues that the Council will need to consider further in the context of future work programmes....

III. INCREMENTAL COSTS AND FINANCING MODALITIES

5. At the same session, the Council considered a note prepared by the GEF secretariat on incremental costs and financing modalities, contained in GEF document GEF/C.2/6/Rev.2. Section I of that note outlines approaches to estimating agreed full incremental costs and section II provides an analysis of barriers to implementing measures that would protect the global environment and also examines proposals regarding financing modalities such as grants, concessional financing and contingent financing.

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* GEF documents referred to in this note are available on request through the UNFCCC secretariat.

6. The Council recognized the need for a flexible application of the concept of incremental costs. When considering such issues as domestic costs and benefits, the Council recommended that the notion of environmental reasonableness be a guiding principle so as not to penalize progressive environmental action in recipient countries.

7. The Council noted that Part II of the paper on financing modalities required serious consideration by the Council before approval of non-grant approaches to financing of GEF activities. The Council agreed that should an interesting idea for non-grant financing in a GEF activity emerge, that idea could be considered by the Council as to whether it merited further development.

8. The GEF Council reviewed document GEF/C.2/6/Rev.2 and approved the approach on estimating agreed incremental costs set out in Section I of the document, subject to the comments agreed to during the Council meeting. The Council requested the GEF Secretariat to develop operational guidelines to implement this approach in consultation with the Implementing Agencies. Taking into account guidance from the Conferences of the Parties of the Convention on Biological Diversity and the Framework Convention on Climate Change, the GEF Secretariat and the Implementing Agencies were requested to incorporate the policy and related guidelines into their project preparation, and in particular, in negotiations with recipient countries on the agreed incremental costs of GEF financed activities.

9. The Council also reviewed the proposed financing modalities presented in Section II of the document. The GEF Secretariat was requested to develop further the proposals for additional financing policies, taking into account the comments made during the Council meeting, and to prepare a policy paper for consideration by the Council at its meeting in April 1996. In preparing the paper, the GEF secretariat was requested to reflect the operational strategy to be adopted by the Council in October 1995.

IV. ARRANGEMENTS BETWEEN THE CONFERENCE OF THE PARTIES AND THE GLOBAL ENVIRONMENT FACILITY

10. As indicated in document FCCC/SBI/1995/3, at its July meeting, the Council considered the Draft Memorandum of Understanding that was prepared following consultations between the two secretariats, as well as a Draft Memorandum of Understanding between the Conference of the Parties to the Convention on Biological Diversity and the GEF Council.

11. The Council reviewed document GEF/C.5/8, Arrangements with the Conventions, including the Draft Memorandum of Understanding between the Conference of the Parties to the Convention on Biological Diversity and the Council of the Global Environment Facility regarding the Institutional Structure Operating the Financial Mechanism of the Convention and the Draft Memorandum of Understanding between the Conference of the Parties to the United Nations Framework Convention on Climate Change and the Council of the Global

Environment Facility. The Council noted with appreciation the significant progress that had been made by the secretariats of the conventions and the Secretariat of the GEF in preparing the draft memorandums.

12. The Council also requested the GEF Secretariat to review with the two convention Secretariats the drafting of the memorandums with a view to promoting consistency in the drafting of similar provisions, taking into account the written comments submitted by Council Members.

V. DRAFT OPERATIONAL STRATEGY

13. At the same session, the Council considered a draft operational strategy contained in GEF document GEF/C.5/3. That draft operational strategy (which was submitted to the Council for review and comments), included an operational framework applicable to all focal areas and chapters on the specific focal areas of biodiversity, climate change and ozone depletion. (Preliminary drafts of operational strategies for international waters and land degradation had already been submitted to the Council at its February 1995 meeting).

14. The proposed operational strategy for climate change covers enabling activities, long-term mitigation measures, short-term mitigation measures and research. The draft operational strategy was prepared in response to guidance by COP 1 for a mixed strategy combining activities aiming at either long-term cost-effectiveness or short-term cost-effectiveness. Its main elements, reflecting recent adjustments, are summarized below.

A. Enabling activities

15. Enabling activities are the foundations for addressing climate change through country-driven activities. The concept of enabling activities was delineated in the course of the Convention negotiating process. Enabling activities related to the communication of information under Article 12.1 of the Convention comprise planning and endogenous capacity-building, including institutional strengthening, training, research and education, that will facilitate implementation of effective response measures, in accordance with the Convention. Enabling activities for complying with the obligations of Article 12.1 may be financed on the basis of "agreed full costs". In the short term, planning for adaptation in the context of the formulation of national communications is also envisaged, and this includes studies of possible impacts of climate change and the identification of options for implementing the adaptation provisions – especially the obligations contained in Article 4.1(b) and Article 4.1(c) of the Convention and relevant capacity-building.

16. Enabling activities aim at providing support to countries in understanding the scientific, technical, legal and financial aspects of climate change activities, in systematically assessing their options and in planning their mitigation and adaptation responses.

17. An integrated operational framework would be developed that would set out (a) elements of enabling activities; (b) the database of activities completed, under way or planned; (c) cost norms; and (d) proposed activities.

B. Long-term mitigation measures

18. Long-term mitigation measures would be implemented through long-term operational programmes that would sequence activities and concentrate resources in order to reduce greenhouse gas emissions by as much as possible in the long term. Most of the measures to be supported would be policy initiatives, public and private investments, capacity-building in the conservation of and substitution for fossil fuels, and for the creation, protection and enhancement of sinks.

19. With programme objectives that are explicit and able to be monitored, an operational programme would provide a rational operational basis for (a) selecting projects from among country-driven proposals; (b) relating the constituent elements of the programme, which would help meet programme objectives; (c) showing how any claimed "demonstration" or other programmatic effects are to be obtained and evaluated; and (d) evaluating the effectiveness of the GEF.

20. Mitigation measures in such operational programmes could be grouped under (a) support for the use of available technologies, and (b) measures to open or expand markets for relevant technologies, through provision of information, support for local capacity-building, and establishment of policies that attract private and public capital investments in the local use of these technologies.

21. Proposals for long-term operational programmes would be developed that would be:

(a) Consistent with the guidance of the COP of the UNFCCC;

(b) Technically the most promising, in accordance with the latest scientific and technical assessments of the Intergovernmental Panel on Climate Change and the Scientific and Technical Advisory Panel (STAP);

(c) Cost-effective; that is, their components are chosen to meet the programme objective at the least cost; and

(d) Consistent with the other operational principles of GEF; that is, they meet the essential GEF principles of sustainability, country integration, information provision, complementarity, and facilitation.

22. As an initial step, three illustrative operational programmes, for which it is anticipated that proposals may be developed, are envisaged:

(a) Renewable energy markets

(b) Energy conservation and energy efficiency markets

(c) Low greenhouse gas-emitting technologies

C. Short-term mitigation measures

23. In some cases, there will be project proposals that are not part of a long-term operational programme but which would still be a very cost-effective precaution to reduce greenhouse gases (GHGs) in the short term. Such proposals would be "too good to miss" because of their cost-effectiveness – that is, they have a low unit abatement cost (UAC).

24. The criterion of a UAC ceiling could be applied to the schedule of country-driven opportunities for mitigation. Options with modest positive UACs, that is, below the threshold used as a short-term cost-effectiveness criterion, would be eligible as cost-effective means to reduce GHGs in the short term.

D. Research

25. Limited funds would be provided for highly targeted research efforts in recipient countries, including:

(a) Highly site-specific research and monitoring on climate change and its effects; and

(b) Application of climate change mitigation measures in countries other than the ones in which they had been developed.

26. An operational programme for research would be developed only after the Council had approved an overall policy on research.

27. The Council reviewed document GEF/C.5/3 on a preliminary draft operational strategy. The Council noted that the document is a "work in progress", and confirms its expectation that the operational strategy would be approved at its October meeting. In this regard, the Council requested the GEF Secretariat to continue its efforts, in consultation with the Implementing Agencies, STAP, and the convention secretariats to prepare a revised draft text of the operational strategy for review by the Council at its meeting in October 1995. In preparing the revised document, the GEF Secretariat was requested to take into account the comments made by the Council, including written comments submitted by the Council Members. Council Members were invited to submit written comments on the draft operational strategy to the GEF Secretariat as early as possible.